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REGULATION OF FINANCIAL INSTITUTIONS: RECENT REFORMS

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ISSUE DEFINITION

Canada's financial services industry has been undergoing profound changes in recent years. The traditional structure, viewed as consisting of four distinct pillars - banks, trust and mortgage loan companies, insurers, and investment dealers - is becoming less and less recognizable as technology and market forces are breaking down functional and geographic barriers. Trust companies and investment dealers now offer their customers cheque-writing services, much as banks do. Banks have become major players in the mortgage field, traditionally the preserve of trust and insurance companies. Trust and insurance companies seek ways to crack the commercial lending market, the chartered banks' principal area of operations. And everyone seems to be vying for retail deposits and consumer credit. The introduction of automated teller machines and ATM network systems has made it possible for even small institutions with relatively little capital to provide their customers with virtually nationwide services. Larger institutions are becoming increasingly global in their outlook, as computerization and improved telecommunications are integrating financial markets worldwide. Until the implementation of new legislation in June 1992, our regulatory structure for the most part predated these developments by many years.

The debate on how to reform that aging structure had already been joined, when events in the summer of 1985 gave it added urgency. The failure of two small banks, representing in total less than 1% of all bank assets, was not in itself a big thing. But it had symbolic value, for there had been no bank failures in Canada in over 60 years. Other small banks came under pressure, as the working assumption that banks can't fail proved false, and

disquieting questions were raised about the effectiveness of existing machinery for bank regulation and supervision.

The takeover of Canada Trust by Genstar, coming on the heels of the two bank failures, raised other questions. Canada Trust had been the last major independent trust company. Its acquisition by Genstar (itself soon to be acquired by Imasco) was not only a vivid reminder of how much the financial services industry had changed in recent years; it also brought again to the fore age-old concerns about concentration of financial power and about mixing financial and non-financial enterprises within one conglomerate group.

For most of the past decade then, the regulation of our financial system has been in the spotlight. Proposals for reform have been both numerous and far-reaching. This CIR provides a survey of the main proposals and concludes with the comprehensive reforms adopted in June 1992.

To keep this review within a manageable length, only regulations at the federal level and reform proposals directly dealing with them are examined.

BACKGROUND AND ANALYSIS

A. Role of Financial Institutions and Rationale for Regulation

The financial services industry in Canada is more heavily regulated than most sectors of the economy. This can in part be explained by the pivotal role of the industry in the economy and in part by the specific nature of financial institutions that makes them unusually vulnerable to changing economic forces and to occasional fits of collective panic.

The unique role of financial institutions is to facilitate the transfer of funds from savers to borrowers. In one manifestation of this role, the financial institution accepts funds from savers in exchange for its own financial instruments and then lends or invests these funds on its own account - a process known in the industry's jargon as "financial intermediation." In another, the financial institution designs financial instruments for client borrowers and markets them to potential lenders, or facilitates the sale and purchase of existing financial instruments - a process referred to as "market intermediation."

Whatever the process, the activity is crucial to the efficient operation of a modern economy. In the absence of well-functioning intermediaries, lenders and borrowers would have a much narrower range of financial instruments to choose from, and credit in the right amount and form would be more costly and difficult to get. Funds would not be allocated to their most valued uses, and worthwhile projects would be deterred. The economy as a whole, therefore, and not only the financial markets, would be less efficient. This critical role of financial services has provided the rationale for the adoption of ownership regulations designed to ensure a large Canadian presence in the industry. It also points out why the goals of competition and efficiency must be given a high place in regulatory policy.

In addition to their intermediation function, financial institutions are the hub of the payments system. Most payments today are not carried out by means of currency, but by cheques and, increasingly, credit cards. Whichever the method used, whether cheque or card, payment involves the transfer of claims in financial institutions from buyer to seller. It works because the community at large will accept such transfers in settling their transactions. Operation of the payments system is thus based on trust, trust that the claim evidenced by the cheque or card will be honoured by the payer's deposit institution. Without such trust, and the consequent acceptability of financial claims as means of payment, people would have to rely much more on currency or barter to settle their accounts, at a substantially increased cost in convenience and use of resources.

Confidence in the financial system is important in another respect as well. The system operates on a so-called "fractional reserve" basis, meaning that the assets held by financial institutions in the form of cash are only a small fraction of their total liabilities. Normally this poses no problem, since deposit withdrawals are usually a small and fairly predictable portion of total liabilities. An unanticipated increase in withdrawals, however, could place even a sound institution at risk of default, because the need to convert its assets into cash at short notice could so depress their value as to leave the institution insolvent. The fear of non-convertibility can spread from one institution to others, leading in extreme cases of panic to a general run on deposit institutions and financial collapse.

The possibility of such a domino effect provides the rationale for the Bank of Canada's function of "lender of last resort": the Bank's readiness to advance liquidity to banks,

so long as they are otherwise solvent, to meet unanticipated repayment demands. It is a principal reason for the provision of deposit insurance, a measure which, by reassuring depositors that their funds are safe even when their deposit institution fails, deters panic withdrawals and minimizes the risk of bank runs. Fear of systemic failure is also the key consideration behind regulations on issues such as capital adequacy, business operations and investment decisions, which are designed to enhance the solvency and soundness of individual institutions.

Beyond their role as intermediaries, financial institutions provide other services, including money management, insurance and trustee services. In all these activities, as well of course as in their intermediation role, financial institutions are entrusted with funds belonging to their clients. To borrow a much-used phrase, they operate in effect "with other people's money." One motivation for regulation is to protect consumers, particularly the small unsophisticated investor or depositor, in this relationship. Requirements concerning information disclosure, restrictions on transactions involving conflict of interest or self-dealing, and supervision of the conduct of financial institutions by outside authorities are measures instituted largely in response to this concern.

Thus far, the discussion has dealt only with "public interest" considerations motivating regulatory policy. But frequently regulations are fostered by narrow economic interests as well. Limits on stock ownership, ostensibly designed to protect depositors from self-dealing abuses, also make it easier for management to ignore or override shareholders' interests when these clash with their own. Restraints on cross-pillar activities may reduce the scope for conflict of interest abuses, but they also shield inefficient or lethargic institutions from competition by investors who see economic gains in combining activities from more than one sector. High capital requirements for engaging in an activity may enhance solvency; they also set up barriers to entry, making life much more comfortable for incumbent firms at the expense of competition and efficiency. Those who benefit from such regulations can be expected to press for them. Of course, their appeals will also be made in the name of the "public interest."

B. The Regulatory Structure

Regulation of the financial services sector in Canada is a joint federal-provincial affair. Banks fall under the exclusive jurisdiction of the federal Parliament, while investment dealers and credit unions are exclusively regulated by the provinces. Trust, mortgage loan and insurance companies can be incorporated under federal or provincial jurisdiction. Federally-incorporated companies must be licensed by the provinces in which they operate and in some aspects of their business, insurance contracts and trust activities for instance, are regulated provincially. On the other hand, provincially-incorporated trust and loan companies must meet standards set by the federal Crown company, the Canada Deposit Insurance Corporation, in order to qualify for deposit insurance - a prerequisite to operating a trust or loan company in all the provinces except Quebec. Deposits booked by trust and loan companies incorporated in that province are insured by the *Régie de l'assurance-dépôts du Québec*.

Historically, the regulation of financial institutions in Canada has taken as a given the existence of distinct sectors within the financial services industry. The main sectors consist of the so-called four pillars of finance: banks, trust and loan companies, insurance companies and securities dealers. Separate regulatory statutes have governed each of these sectors. These statutes in effect recognize core activities for each of the financial sectors - deposit-taking and commercial loans for banks, fiduciary services and mortgage lending for trust and loan companies, financial protection for insurance companies, underwriting and brokerage of corporate securities for securities dealers - and seek to protect them from outside encroachment.

Legislative changes over the past decade have considerably modified the barriers separating the four pillars. While maintaining the sector-by-sector approach to regulation and the assignment of core activities to each sector, they have nevertheless permitted a much greater degree of integration of financial services by removing cross-ownership restrictions between the sectors and expanding the in-house powers of financial institutions within each sector.

The first legal breach in the walls separating the financial sectors came in June 1987, when the federal Parliament authorized federally regulated financial institutions to own securities subsidiaries. These new powers came on the heels of new regulations introduced by the Ontario government lifting ownership restrictions on securities firms operating in Ontario,

effective 30 June 1987. Provisions to that time prohibited any single non-industry investor from owning more than 10% of the voting shares of a securities dealer. Quebec and most other provinces had already been operating without ownership limits on the securities industry, but Ontario's regulations tended to function as a national standard: dealers registered in other provinces had voluntarily been adhering to the Ontario regulations in order to maintain access to the Toronto Stock Exchange.

The June 1987 measures, dubbed the "mini-bang" in imitation of the "big bang" deregulation of the London Stock Exchange in October 1986, revolutionized the structure of the Canadian securities industry. Five of Canada's six largest chartered banks became major players in the securities market overnight through the acquisition of some of Canada's biggest investment firms. A large number of new firms also entered the securities market, resulting in much enhanced competition and a far more strongly capitalized industry.

Legislation that came into effect in June 1992 removed most remaining restrictions on cross-ownership between financial institutions. It also expanded the in-house powers of financial institutions and permitted them to network most financial services offered by other institutions. The new legislation has substantially expanded the ability of financial institutions to diversify across financial sectors and widened considerably the range of financial services they can provide.

Quebec pioneered the move to financial deregulation in Canada, with the passage of Bill 75 in 1984, which opened the way for Quebec insurance companies to engage in the widest range of financial and even non-financial activities. There are strong advantages to such an approach. It frees firms to adjust their structure and operations in ways that minimize costs and respond most effectively to consumer needs. It allows them to diversify their activities and portfolios, and thereby lower the risks they face. It recognizes that there is a growing trend to globalization in world markets, and that in such a setting, legislatively imposed rigidities in Canada can seriously handicap domestic institutions. And it may also be inevitable: through innovations in products and structure, financial markets have managed, to a very large degree, to circumvent existing regulatory barriers; the sure effect of legislative efforts to firm those barriers would be greater market efforts to get around them - and markets have modern technology on their side.

But financial integration also has risks. The larger the number of activities brought together under a single roof, the greater is the scope for conflicts of interest. Combining intermediation and trust activities can allow trust funds to be used to promote intermediary activities to the possible detriment of the trust beneficiary. When a financial institution is engaged in both commercial lending and securities underwriting, it may find itself in the position of promoting the securities of a corporation to which it is a major lender: it may be tempted to be less than impartial in its advice. Conflicts can also arise when a financial institution lends to another corporation with which it is affiliated. Critics of the takeover of Canada Trust by Genstar and then Imasco were motivated in part by fears that the deposits of Canada Trust might be used to promote the interests of its non-financial affiliates. In short, greater flexibility and integration in financial markets can enhance competition and efficiency, but may threaten institution solvency and consumer protection. The challenge of regulatory policy is how to strike a balance between these objectives.

C. Proposals for Reform

The regulation of financial institutions in Canada has been a prominent item in the public policy agenda for most of the past decade. The federal government helped focus the debate on the issue with its release in April 1985 of a discussion paper entitled *The Regulation of Canadian Financial Institutions: Proposals for Discussion* (commonly referred to as the Green Paper). A technical supplement to this paper, amplifying the proposals in it, was released in June 1985.

The Green Paper provided a comprehensive review of regulatory issues and made proposals touching on every facet of regulatory policy other than deposit insurance. The intent of these proposals was to enhance flexibility in financial markets without sacrificing protection of the public. Among its many proposals, the Paper contained recommendations to: require ministerial review and approval of ownership transfers of financial institutions; strengthen the powers of regulatory authorities to take early action when problems arise in financial institutions; simplify the investment requirements applicable to insurance trust and mortgage loan companies and pension funds by replacing the current quality tests with a "portfolio" approach (which

would allow these institutions greater discretion in choosing their investments so long as their portfolio composition complied with certain quantity tests designed to ensure adequate diversification); remove restrictions that inhibit networking between institutions (so that an institution in one financial field may offer services through facilities provided by an institution in another field); increase the start-up and continuing capital requirements of financial institutions; and enhance the standard of care imposed on the board of directors.

1. Financial Diversification and Self-Dealing

The Paper's main and most controversial proposal, however, dealt with the rules concerning integration of financial markets. In this regard, the Paper proposed that the widest diversification of financial services be permitted provided it is conducted under the umbrella of a financial holding company (FHC). More specifically, under the Paper's proposal, a financial company wishing to operate in a field outside its current area would not be permitted to do so directly but could be part of a group of companies, headed by an FHC, that included companies in any number of financial fields. Commercial lending, a traditional banking activity, would be permitted through a new Schedule C bank that could be closely held but would have to be part of a legitimate FHC group. The FHC companies would be distinct legal entities with their own financial statements and board of directors, but would be able to share common resources, such as premises, centralized computer facilities, advertising, accounting resources, and legal and research services.

The Green Paper would balance this increased potential for diversification with some very exacting requirements under which the FHC group of companies would have to operate. To begin with, establishment of an FHC would be mandatory in every case where a single investor or group held more than a 10% equity interest in two or more regulated financial institutions, one of which is federally regulated. The FHC would be the sole vehicle through which all equity interests in an affiliated group of financial companies would be channelled. Hence, operating financial companies would no longer be able to hold equity interests in one another. FHCs would generally be restricted to holding equity in only one of each type of financial institution. That is, subject to some exceptions, an FHC would be permitted to hold only one trust company, one mortgage loan company, one insurance company, etc. The FHC

itself would be inactive, meaning that it would not be allowed to have direct financial dealings with the general public. To prevent abuses of self-dealing and of conflict of interest in the financial sector, the Paper would place a general ban on non-arm's-length transactions, subject to very limited exemptions.

Thus, the Green Paper would allow complete integration of financial services within a single corporate group, but those willing to take advantage of this new freedom would have to do so within a very strict and precisely specified corporate structure. The expressed reasons for the proposed structure were to facilitate the regulation of financial institutions and to permit a more effective system of consumer protection.

In a report released November 1986 (entitled *Competition and Solvency - A Framework for Financial Regulation*), the Economic Council of Canada also recommended that each financial institution be limited to the performance of a single major function and that diversification be allowed only through a financial holding group. Despite recent innovations in technology which have facilitated the mixing of different activities within a single institution, the performance of major functions, the Council argued, still calls for different techniques and involves different markets. The major advantage of putting the different functions into separate institutions would be simplicity, and more specifically simplicity of regulation. Each group of institutions performing the same function would be made subject to the same regulations, thereby attaining a so-called level playing field for all financial institutions. As well, regulators would have to worry about and specialize in one function only. Unlike the Green Paper, the Council would allow, within limits, financial transactions between members of a financial group without regulatory approval, except when an affiliate is facing financial difficulties.

Industry's response was generally favourable to the Green Paper's recommendations concerning higher capital requirements, simplified investment rules, enhanced corporate governance, ministerial approval of ownership transfers, and more powers for the regulatory authorities. But their reaction to the FHC proposal was mostly negative. The banks expressed concern that under the Paper's proposal for diversifying financial services, they would be excluded until the scheduled 1990 revision of the *Bank Act*. They also criticized the Paper's willingness to permit closely-held financial companies: banks wanted the ownership restrictions which apply to the Schedule I banks (namely, that no single individual or related group can hold

a more than 10% ownership interest) to be extended to all financial institutions. Trust companies argued that the FHC proposal was revolutionary and perverse, when all that was necessary was a modest expansion of the powers of existing institutions. Insurance companies expressed support for the use of financial holding companies as the principal means to diversification, but urged that institutions also be given limited powers to enter new fields more directly through subsidiaries or in-house expansion. Investment dealers, wishing to maintain the separation between financial and market intermediaries, rejected the FHC proposal as unnecessary and dangerous (because, they argued, relaxation of the rules ensuring the separation of functions would lead to increased concentration and a reduction in competition and choice).

Except for the investment dealers' outright opposition to any integration between the securities sector and the rest of the financial services industry, it is fair to say that what other institutions objected to was principally the compulsory nature of the FHC concept rather than the concept itself. Critics complained that the proposal would do precisely what the Green Paper said regulatory policy should avoid doing: it would impose a preconceived structure on the financial system. Most small financial firms, it was argued, would be unable to take advantage of the proposal, and might in fact lose as a result of it. This was because part of the package would entail a restriction on the power of non-bank institutions to engage in commercial lending (so as to encourage such lending through a Schedule C bank). The ban on self-dealing, it was further argued, would defeat a main purpose of bringing together different financial institutions within one conglomerate group, for it would pretty much prevent the economies of scope and synergy that can be generated through integration in such a group. Concerns were also expressed that the FHC proposal would generate federal-provincial conflict, for it would stretch Ottawa's regulatory net over institutions which now fall fully within provincial jurisdiction.

For reasons such as these, the two parliamentary committees that examined the Green Paper - the Commons Committee on Finance, Trade and Economic Affairs, and the Senate Committee on Banking, Trade and Commerce - rejected the proposal for a mandatory FHC structure as the only means to diversification, opting instead for a much more flexible approach which would allow diversification through in-house expansion, FHCs, or downstream subsidiaries.

Both committees also rejected the Green Paper's proposal for a general ban on self-dealing transactions. Recognizing that self-dealing can be legitimate as well as economically beneficial, the committees would allow self-dealing transactions subject to a regulatory mechanism designed to prevent abuses. Under this mechanism, each financial institution would be required to establish a committee of independent directors to review all non-arm's-length transactions. Transactions that might threaten the solvency of an institution would be banned and other significant transactions would require pre-clearance by the relevant regulatory authority.

2. Ownership Limits

As a further check to possible abuse, the Senate Committee recommended that where a financial institution is controlled by a firm which does not fall within the same financial sector, then either the financial subsidiary or its parent must have 35% of its stock publicly traded. The intent of this recommendation was to strengthen outside discipline on management by bringing about fuller disclosure and encouraging professional financial analysts to monitor the institutions.

The Commons Finance Committee came to different conclusions on this issue. In its report on the Green Paper, released in November 1985, the Committee recommended a schedule of ownership limits based on domestic asset size of the financial institution as follows:

Domestic Asset Size	Ownership Limit
under $10 billion	100%
$10-$20 billion	75%
$20-$30 billion	50%
$30-$40 billion	25%
over $40 billion	10%

In a subsequent report, released 26 June 1986, the Committee amended this recommendation to prohibit non-financial institutions from owning more than 30% of a financial institution. Although individual investors without non-financial interests would still be governed by the first report's ownership schedule, this subsequent amendment would have far-reaching

implications for the financial services industry: the original proposal would leave the industry intact; the amendment would require substantial divestment and restructuring by firms in most existing financial conglomerate groups in Canada.

The Economic Council would limit ownership to 10% for single financial institutions or holding groups with over $10 billion in assets. Institutions which do not meet this requirement at present would not have to divest, but any new equity increases would have to be widely distributed. The ownership test would be applied at the highest level, so that a financial institution could be closely held so long as the holding company met the ownership requirement.

3. Deposit Insurance

Deposit insurance was introduced in Canada in 1967. Today, CDIC insures against loss all Canadian dollar deposits in member institutions up to a maximum of $60,000 per deposit account. CDIC is funded by flat premiums from member institutions.

The main aims of deposit insurance are to protect depositors and prevent bank runs. But it also has an unintended adverse effect which tends to undermine institutional solvency. Depositors who are fully insured lack an incentive to monitor the institutions to which they entrust their funds and to shun the less prudent ones. Indeed, because risk and return are normally positively related, insurance favours the more risk-prone institutions, thereby encouraging excessive risk-taking.

There are basically two ways of dealing with this problem: one is by establishing exacting prudential standards that insured institutions are obliged to meet; the other is by shifting some of the risk burden from the CDIC to the depositor. Among those engaged in the debate on reform, there was general agreement that existing prudential standards should be strengthened, though there were differences about degree and detail. On the second approach, there was much less agreement.

The Wyman Committee, which was set up to look into the operations of the CDIC, in its report released April 1985, recommended the adoption of a system of co-insurance under which 90% of individual deposits between zero and $100,000 would be insured. The Senate Committee on Banking also recommended a form of co-insurance. Under the Committee's proposal, there would be full insurance coverage for deposits up to $25,000 (which

as of early 1985, would cover more than 95% of all deposit accounts) and 80% coverage for deposits between $25,000 and $75,000. The Commons Finance Committee, the Estey Commission and the Economic Council would retain full coverage up to $60,000. The Economic Council also recommended a higher limit for deposits that form part of an RRSP in order to protect the retirement income of the elderly.

As another measure aimed at increasing the discipline brought to bear on deposit-taking institutions, the Senate Banking Committee recommended the establishment, within CDIC, of separate insurance funds for each institutional group. Separate insurance funds, the Committee reasoned, would enhance incentives for industry self-regulation by increasing the insurance costs that institutions would have to bear for losses by any member within the same group. The Estey Commission recommended that CDIC examine the advantages of such a scheme. The Commons Finance Committee recommended maintaining a single fund for all insured financial institutions.

D. The Reforms Adopted

On 16 December 1986, the Minister of State for Finance released a new set of proposals in a policy paper entitled *New Directions for the Financial Sector* (commonly known as the Blue Paper).

The thrust of the Blue Paper was two-fold. It sought to increase competition in financial services by expanding the powers of financial institutions to engage in cross-pillar activities, either directly or through affiliated companies. It also sought to ensure the soundness and stability of the industry through a strengthened supervisory system, enhanced corporate governance, tougher rules on self-dealing transactions, and restrictions on the acquisition and ownership of financial institutions.

The Blue Paper proposals relating to ownership of financial institutions proved particularly controversial. These proposals were designed to restrict commercial-financial links and to encourage widely held ownership of financial institutions. To these ends, they would have prohibited investors with a significant commercial interest from starting or acquiring a financial company. They would also have prohibited any person or associated group from

acquiring a more than 10% ownership interest in financial companies with a capital base of over $750 million.

The parts of the paper dealing with the supervisory system were implemented with the enactment of Bills C-42 and C-56, in June 1987, which merged the Office of the Inspector General of Banks and the Department of Insurance into a single Office of the Superintendent of Financial Institutions (OSFI), and gave OSFI and the Canada Deposit Insurance Corporation (CDIC) increased powers of control and supervision over financial institutions. At the same time, a first step was taken in the expansion of powers of financial institutions, with the authorization of federally regulated financial institutions to own securities dealers as already noted.

On 27 September 1990, the Honourable Gilles Loiselle, Minister of State for Finance, tabled new proposals dealing with the outstanding aspects of financial institutions reform in a White Paper entitled "Reform of Federal Financial Institutions Legislation - Overview of Legislative Proposals." The new proposals were announced in conjunction with the introduction of Bill C-83, the Trust and Loan Companies Bill. This was the first of a series of proposed statutes aimed at completing the process of reforming the regulatory structure applicable to financial institutions. Proposed changes to the *Bank Act* were tabled in December, under Bill C-95. Bills providing for a new Insurance Companies Act (Bill C-28) and Cooperative Credit Associations Act (Bill C-34) were tabled in June and September 1991 respectively. Although introduced sequentially, all these statutes were to come into effect on the same date.

In the regulatory framework envisaged at the end of this process, financial institutions from different sectors - banking, insurance, and trust services - would be much freer to enter each other's traditional markets and to compete directly with each other. Conflicts of interest and self-dealing transactions - for which there will be greater scope within this integrated financial services environment - would be controlled through a combination of tougher disclosure requirements, enhanced corporate governance and strengthened prudential supervision by the regulatory authorities.

Key new elements in the proposed regulatory framework included:

- Expanded in-house powers for financial institutions, including full commercial and consumer lending powers for trust and loan companies and portfolio management and investment advisory services for banks;

- Legislative sanction for networking arrangements, under which a financial institution will be able to offer financial services produced by another institution, except for insurance services;

- Authority for financial institutions to own financial institution subsidiaries of any type (although to own a bank, the parent company would have to be widely held), as well as a range of other corporations, including information services corporations and real property holding and brokerage corporations;

- A 35% public float requirement for financial institutions with a capital base larger than $750 million;

- Substitution of a "prudent portfolio" standard for the previous quality tests governing investments by non-bank financial institutions;

- A three-tiered approach for dealing with related party transactions, consisting of a general ban with specified exceptions, internal controls and review of allowable transactions, and pre-clearance by the Superintendent of certain special transactions.

PARLIAMENTARY ACTION

On 9 October 1990, the House of Commons Standing Committee on Finance announced that it would review the government's new policy proposals for the financial sector, including the subject matter of Bill C-83, and invited interested parties to submit their views by 15 November 1990. Bill C-83 itself was referred to the Finance Committee on 6 November, following second reading approval in the House.

The Committee reported Bill C-83 to the House on 10 April 1991, following extensive hearings during which the Committee heard evidence from departmental officials, representatives from all financial sectors, consumer groups and individual experts. The Committee's report contained more than 200 amendments to the bill. Most of these were of a technical nature, though some were substantive. Among the latter were amendments to impose on trust and loan companies rules respecting disclosure of service charges and procedures for

handling customer complaints similar to those rules that had been proposed for banks under Bill C-9 (later incorporated into Bill C-95).

The work of the Committee did not perish with prorogation of Parliament. Early in the new session, on 17 May 1991, by unanimous consent of the House, Bill C-83 was reinstated to the report stage, with the amendments adopted at Committee, as Bill C-4. Relevant amendments adopted at Committee stage review of C-83 were also incorporated in a new version of C-95 (the Bank Act bill), re-introduced on 31 May as Bill C-19.

As was the case with the trust and loan companies bill, Bills C-19, C-28 and C-34, once approved on second reading, were referred to the House of Commons Standing Committee on Finance. In view of the extensive earlier hearings on the overall financial reform proposals and on Bill C-83, the Committee's review of these bills was more limited, concentrating mainly on technical amendments and a few remaining controversial issues (in particular, provisions relating to allowable insurance activities by banks and the borrowing powers of insurance companies). Nevertheless, a large number of amendments were adopted at Committee stage and additional amendments were also introduced later, at report stage. All four financial reform bills were debated as a package on third reading and were passed by the House of Commons on 9 December 1991.

Following a brief debate -- the Senate Committee on Banking, Trade and Commerce had reviewed the bills prior to their reaching the Senate -- the Senate passed all four bills on 13 December and they received Royal Assent that same day. In the spring of 1992, the Senate Banking Committee also held hearings on draft regulations relating to the financial institutions legislation. The hearings concentrated on two particularly contentious areas of regulation -- insurance retailing by deposit-taking institutions and conversion of mutual insurance into stock companies.

Proclamation of the bills into force had to await promulgation of regulations without which a number of sections of the bills (including sections relating to the definition of assets, related party transactions and service charges disclosure requirements) could not function. These regulations were issued at the end of May and the bills came into force on 1 June. They all contain a "sunset" clause limiting their application to the end of five years from the date of proclamation.

CHRONOLOGY

April 1985 -	Release of the Green Paper on the regulation of Canadian Financial Institutions.
September 1985 -	The Government announced the collapse of CCB and Northland, and commissioned Mr. Justice Willard Z. Estey to inquire into and report on the factors which contributed to that collapse.
June 1986 -	Proclamation of C-86, An Act to amend the Canada Deposit Insurance Corporation Act, which a) raised the allowable deposit insurance premium level from one-thirtieth of 1% of insured deposits to one-tenth of 1%, and b) increased the size of the CDIC board of directors from five to nine members.
December 1986 -	The Minister of State for Finance released the Blue Paper entitled *New Directions for the Financial Sector*.
June 1987 -	Bill C-42 and C-56 were enacted, creating the Office of the Superintendent of Financial Institutions (OSFI), and giving OSFI and the Canada Deposit Insurance Corporation increased powers over financial institutions, and authorizing federally regulated financial institutions to own securities dealers.
April 1989 -	Introduction of Bill C-9, establishing rules for the setting and disclosure of bank service charges. The bill received second reading on 26 June 1989.
May 1990 -	The Senate Committee on Banking Trade and Commerce released a report entitled *Canada 1992: Toward a National Market in Financial Services*. A major theme of that report was the need for federal-provincial policy harmonization so as to ensure a single domestic market in financial services. As the basic operating principle for a single market, the report recommended adoption of the "designated jurisdiction" concept, which would require a province to recognize financial institutions chartered in another province. Acceptance of this principle would be accompanied by a new consensus on minimum financial and regulatory standards by all chartering jurisdictions.
September 1990 -	Introduction of Bill C-83 accompanied by policy document entitled *Reform of Federal Financial Institutions Legislation: Overview of Legislative Proposals*.

November 1990 -	Second reading of Bill C-83 and referral to the House of Commons Standing Committee on Finance.
December 1990 -	Introduction of Bill C-95, An Act respecting banks and banking.
-	Parliamentary approval and Royal Assent of Bill C-90, extending expiration date of the current *Bank Act* from 31 March 1991 to 31 March 1992.
April 1991 -	House of Commons Standing Committee on Finance reported Bill C-83 to the House with amendments.
May 1991 -	By unanimous consent of the House, Bill C-83 was reinstated to report stage as Bill C-4.
June 1991 -	Introduction of Bill C-28, an Act respecting insurance companies and fraternal benefit societies.
September 1991 -	Introduction of Bill C-34, An Act to revise and amend the law governing cooperative credit associations.
December 1991 -	Bills C-4, 19, 28 and 34 received Royal Assent.
1 June 1992 -	Bills C-4, 19, 28 and 34 came into force.

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